Supreme Court, U.S.
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No. 98-1942

IN THE

SUPREME COURT OF THE UNITED STATES

NIKE, INC.,

Petitioner,

v.

WAL-MART STORES, INC. AND
HAWE YUE, INC.,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S REPLY BRIEF

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LIST OF PARTIES

All parties appear in the caption of the case on the cover page. Petitioner has no parent companies or non-wholly owned subsidiaries.

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ARGUMENT

The Federal Circuit's decision below should be reviewed by this Court. If allowed to stand, the decision will seriously limit the value of design patents, and effectively eliminate the deterrent effect that enforcement actions have on copyists. The detrimental impact the decision will have on American industry is described in Nike's Petition, and is expanded upon in the Amicus Brief filed by Reebok and Rockport.

The decision, moreover, represents a paradigm of a stunning judicial departure from a statute's plain language; it is impossible that any court of appeals can provide additional insight on the issue (although, before the Federal Circuit's decision, two district courts had reached a contrary conclusion, based on the plain language, Pet. 20 n. 7); and the issue is intertwined with consideration of the force and precedential effect of this Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964).

Indeed, respondents do not dispute - and cannot dispute - (1) the profound practical importance and sweeping effect of the Federal Circuit's decision, (2) the Federal Circuit's acknowledged flight from the plain language, (3) the inability of any court of appeals to reach a contrary decision, and (4) the necessity of assessing the effect of this Court's decision in *Aro*.

Instead, respondents principally argue that the Federal Circuit's decision is correct on the merits. Even on this basis, however, respondents' arguments - which may be fully considered by this Court in its consideration of the merits - are severely flawed.

Contrary to respondents' admonitions, the Federal Circuit's decision concerning the meaning of the word "damages" in the Patent Act is not properly based on the doctrine of stare decisis. It is not properly based on statutory interpretation principles. Nor is it

properly based on Congress' legislative intentions. The decision, which the Federal Circuit itself characterized as "anomalous," is nothing more than overt judicial legislation.

I. The "Century of Precedent" Relied Upon by Respondents and the Federal Circuit Predates the Current Version of Section 289, and Is Unavailing.

Making the same fatal error as the Federal Circuit (App. 16), respondents (Opp. Br. 2-7) rely on a body of case law that was rendered obsolete by Congress' amendment to Section 289 in 1952. Each of the cited appellate court cases *predated* the current statute where Congress eliminated the phrase "knowing that the same has been so applied." App. 69, 70. That is, every case was decided at a time when the precursor design patent statute, by its express terms, required knowledge of the patent to recover profits. That amendment eliminated any previously existing notice requirement for recovery under the design patent statute, and refutes respondents' stare decisis argument.[1]

Furthermore, contrary to respondents arguments this Court has recognized that Congress can substantively change a statute without expressly indicating its intent to do so in the legislative record, as here. *See United States v. Wells*, 519 U.S. 482, 492-93, 117 S.Ct. 921, 928 (1997) (*inferring* that Congress intended materiality not to be an element of 18 U.S.C. § 1014 when it dropped the term "materiality" in recodification) (citing *United States v. Shabani*, 513 U.S. 10, 13-14, 115 S.Ct. 382, 384-86 (1994)).

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[1] Contrary to respondents' suggestion, in light of the fact that the old precedent on the question is split, Professor Chisum concludes in his treatise that whether Section 287's notice requirements apply to "profits" under Section 289 is a "live" question. 7 Donald S. Chisum,*Chisum on Patents* § 20.03[7][c][vi] at 20-530 (1998).

II. The Federal Circuit's Interpretation of "Damages" Does Not Provide "Doctrinal Consistency" as Respondents Claim, But, Rather, Effectively Eliminates Section 289 from the Patent Act Altogether.

Respondents erroneously argue that the Federal Circuit's decision is consistent with a supposed statutory plan requiring *all* patent owners to give notice of their patent rights "no matter what type of damages sought (losses or profits) and no matter what type of patent (utility or design)" involved. Opp. Br. 12-13. This is simply not the law. Congress has exempted from Section 287's notice requirements (1) patentees who do not manufacture products, *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387, 398 (1936); (2) patentees who own process patents, *Bandag, Inc. v. Gerrard Tire Company, Inc.*, 704 F.2d 1578, 1581 (Fed. Cir. 1983); and (3) patentees who sue the government, *Motorola, Inc. v. United States,* 729 F.2d 765, 771 (Fed. Cir. 1984). Exempting design patent owners seeking infringers' profits as well (as the District Court below did) is the result that is consistent not only with the statutory scheme as it truly exists, it is consistent with Congress' plain language in Section 287.

Moreover, requiring a patentee to give notice before disgorging an infringer's profits under Section 289 (as the Federal Circuit did below), destroys Congress' remedial scheme by effectively eliminating the "additional remedy" of Section 289. Design patent owners may seek either their damages under Section 284, or elect to recover infringers' profits under Section 289. One benefit to electing damages under Section 284 is the possibility that "the court may increase . . . up to three times" those damages. 35 U.S.C. § 284. The quid pro quo a patentee pays for the benefit of potential trebling of damages is providing notice under Section 287.

In contrast to a Section 284 damages award, a patentee *cannot* seek to treble an infringer's profits under Section 289. *Braun Inc. v. Dynamics Corp. of America*, 975 F.2d 815, 824 (Fed. Cir. 1992).[2] That is, a patentee's "upside" recovery when electing a Section 289 remedy will almost always be substantially less than the "upside" under Section 284's trebling provisions. As a result of the Federal Circuit's decision requiring a patentee to provide notice in order to recover under Section 289, it is unlikely that any patentee will elect the less valuable Section 289 remedy. Requiring the same quid pro quo of notice for a Section 289 recovery, where the commensurate benefit of trebling is not available, makes no sense. Such a result cannot be what Congress intended.

III. Plain Language Interpretation of Sections 287 and 289 Does Not Thwart the Objectives of the Marking Statute.

Contrary to respondents' arguments, the natural reading of the statutes does not thwart the objective of encouraging patentees to give notice of their patent rights. To the contrary, the natural reading is consistent with the remedial scheme set up by Congress that encourages design patent owners to provide notice of their patents. This is so because Section 287 notice is a prerequisite to recovery of damages and *treble* damages under Section 284. Design patentees seeking to maximize their potential monetary recovery will be (and are) encouraged to provide notice. In contrast, the plain language of Sections 287 and 289 expresses Congress' policy

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[2] Interestingly, the Federal Circuit in *Braun* emphasized the "longstanding distinction in patent law between damages and profits," 975 F.2d at 824, in reaching its conclusion that "profits under Section 289 do not constitute 'damages'" *Id.* at n.17 — the same distinction the Federal Circuit and respondents now ignore.

determination that as between a design patent infringer and a patentee, the patentee should reap the profits sown by the infringer. This is so even where the infringer does not have notice of the patent, but where the patentee does not have the benefit of treble damages. The Federal Circuit improperly second guessed this Congressional balancing of competing policies in the decision below.

IV. Through Its Silence, Respondents' Opposition Brief Reinforces Petitioner's Arguments.

In its Opposition Brief, respondents do not address or dispute:

(1) the "long-standing" distinction in the patent laws between "damages" and "profits" reflected in Supreme Court precedent (Pet. 7-10);

(2) the Federal Circuit's blatant departure from the plain language of the statute (Pet. 9-16);

(3) Congress' recent differentiation between "damages" and "profits" in Section 296 of the Patent Act (Pet. 17-18);

(4) Congress' express inclusion of "profits" in the sister notice statute of the Trademark (Lanham) Act (Pet. 18-19);

(5) the inability of the issue to "percolate" in the Circuits due to the Federal Circuit's exclusive jurisdiction (Pet. 19-20); [3]

(6) the plurality nature of Section IV of this Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*,

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[3] Indeed, respondents make the bizarre suggestion that Federal Circuit decisions on patent issues somehow are insulated from this Court's review (even where, as here, they concern a cornerstone of the nation's intellectual property regime). Respondents' suggestion, of course, is clearly wrong. *See, e.g., Cardinal Chem. Co., v. Morton Int'l Inc.*, 508 U.S. 83, 89 (1993).

377 U.S. 476 (1964), leaving this Court's interpretation of "damages" in the Patent Act uncertain (Pet. 20-23);

(7) the fact that the trendy nature of many consumer goods in combination with delays at the Patent Office make prompt patent marking virtually impossible (Pet. 24-25); and

(8) the fact that the Federal Circuit's decision will encourage additional design piracy in American industry by eliminating Section 289 disgorgement actions and their commensurate deterrent effect (Pet. 23-26).

Each of these points, for which respondents have no response, strongly favor this Court's review of the Federal Circuit's "anomalous" decision below.

CONCLUSION

For the reasons set forth above, and for those reasons set forth in Nike's Petition, the petition for a writ of certiorari should be granted to review the decision of the Court of Appeals of the Federal Circuit.

Respectfully submitted,

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